

**CONSOLIDATED
RURAL WATER DISTRICT #1, INC.
CRAWFORD COUNTY, KANSAS**

Regulatory Basis Financial Statement,
Independent Auditors' Report, and
Regulatory-Required Supplementary Information
For the Year Ended
December 31, 2018

**CONSOLIDATED RURAL WATER DISTRICT #1, INC.
CRAWFORD COUNTY, KANSAS**

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Diehl Banwart Bolton

Certified Public Accountants P.A.

INDEPENDENT AUDITORS' REPORT

Board of Directors and management
Consolidated Rural Water District #1, Inc.
Crawford County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Consolidated Rural Water District #1, Inc., Crawford County, Kansas, as of and for the year ended December 31, 2018 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by Consolidated Rural Water District #1, Inc., Crawford County, Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Consolidated Rural Water District #1, Inc., Crawford County, Kansas as of December 31, 2018 or changes in financial position and cash flows thereof for the year then ended.

Unqualified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance for the Consolidated Rural Water District #1, Inc., Crawford County, Kansas as of December 31, 2018, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Other Matters**Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of regulatory basis receipts and expenditures-actual (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however is required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of Consolidated Rural Water District #1, Inc., Crawford County, Kansas as of and for the year ended December 31, 2017 (not presented herein), and have issued our report thereon dated February 8, 2018, which contained an unmodified opinion on the basic financial statement. The 2017 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://admin.ks.gov/offices/chief-financial-officer/municipal-services>. The 2017 actual column (2017 comparative information) presented in the schedule of regulatory basis receipts and expenditures – actual for the year ended December 31, 2018 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such 2017 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 basic financial statement. The 2017 comparative information was subjected to the auditing procedures applied in the audit of the 2017 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2017 basic financial statement or to the 2017 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2017 comparative information is fairly stated in all material respects in relation to the basic financial statement as a whole for the year ended December 31, 2017, on the basis of accounting described in Note 1.

DIEHL, BANWART, BOLTON, CPAs PA

March 7, 2019
Fort Scott, Kansas

**Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2018**

The notes to the financial statement are an integral part of this statement.

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**CONSOLIDATED RURAL WATER DISTRICT #1, INC.
CRAWFORD COUNTY, KANSAS**

Notes to Financial Statement
For the Year Ended December 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statement of Consolidated Rural Water District #1, Inc., Crawford County, Kansas, has been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Kansas Municipal Audit and Accounting Guide (KMAAG) as approved by the Director of the Kansas Division of Accounts and Reports establish the guidelines for the regulatory basis of accounting in the State of Kansas. The more significant of the District's accounting policies follow.

Nature of Organization: Consolidated Rural Water District #1, Inc., Crawford County, Kansas is located in Crawford County, Kansas. The District pumps treated water from wells and purchases water to blend with the treated water. The water is then sold to over 800 rural customers. Accordingly, the District's operations are dependent upon the economic conditions of the area.

In 1986, the members of Crawford County Rural Water District #7, Inc., and Crawford County Rural Water District #8, Inc., voted to consolidate their two water districts into one District, effective January 1, 1987. All of the assets, liabilities, and equity of the two districts were combined to form Consolidated Rural Water District #1, Inc., of Crawford County, Kansas.

Reporting Entity

Consolidated Rural Water District #1, Inc., Crawford County, Kansas, is a municipal corporation governed by an elected seven member council. There are no related municipal entities which should be accounted for in the District's financial statement.

Basis of Presentation - Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitations.

The following types of funds comprise the financial activities of Consolidated Rural Water District #1, Inc., Crawford County, Kansas:

Business fund – funds financed in whole or part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.).

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

Budgetary Information

Kansas statutes do not require budgets for rural water districts.

Deposits and Investments

Deposits and investments include a non-interest bearing checking account, money market checking account and certificates of deposit. Kansas statutes permit investment in checking accounts, savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Compensated Absences

The District does not provide sick or vacation benefits beyond the year earned.

Income Taxes: Consolidated Rural Water District #1, Inc., of Crawford County, Kansas, is recognized by the Internal Revenue Service as a municipality corporation, and is exempt from Federal and State income taxes. Accordingly, this financial statement does not include a provision for income taxes.

Termination and Post Employment Benefits

The District does not offer termination or post employment benefits.

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Compliance with Kansas Statutes

This financial statement has been prepared in order to show compliance with the cash basis laws and statutes of Kansas. The District was in apparent compliance with the cash basis laws and statutes of Kansas.

3. **CASH, INVESTMENTS AND DEPOSITS WITH FINANCIAL INSTITUTIONS**

K.S.A. 9-1401 establishes the depositories, which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices, but has limited the investments to time deposits at the local bank.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District does not have any "peak periods" designated. All deposits were legally secured at December 31, 2018.

At December 31, 2018, the District's carrying amount of deposits was \$285,613.88 and the bank balance was \$318,389.96. The bank balances were all at one bank resulting in a concentration of credit risk. Of the bank balance, \$258,717.99 was covered by federal depository insurance, and the remaining \$59,671.97 was collateralized with securities totaling \$150,660.00 held by the pledging financial institution's agents in the District's name.

4. **BENEFIT UNIT DEPOSITS**

Customers of the District are required to pay a deposit for a benefit unit prior to connecting to a rural water line. In 2018, new benefit units and deposits totaling \$14,000.00 were received by the District.

5. **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through various commercial insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

6. FIXED ASSETS

As discussed in Note 1, regulatory basis financial statements do not record property, plant and equipment as assets of the District. In addition, depreciation expense in the assets is not recorded. However, the District does keep track of fixed assets and the depreciation thereon for internal monitoring. Plant and equipment are capitalized at cost and are depreciated on the straight-line method over the estimated useful life of the assets as follows:

Office Equipment	5 Years
Machinery	7 Years
Plant and Equipment	30, 40, & 50 Years

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

Fixed assets changed for the year as follows:

Fixed Asset	Beginning Balance	Additions	Deletions	Ending Balance
Plant & Equipment	\$ 5,235,827.69	\$ 5,290.13	\$ -	\$ 5,241,117.82
Office Equipment	3,246.60	-	-	3,246.60
Trucks	20,764.81	-	-	20,764.81
Land	7,268.63	-	-	7,268.63
	<u>\$ 5,267,107.73</u>	<u>\$ 5,290.13</u>	<u>\$ -</u>	<u>\$ 5,272,397.86</u>
Accumulated Depreciation	<u>\$ 2,939,927.77</u>	<u>\$ 118,633.08</u>	<u>\$ -</u>	<u>\$ 3,058,560.85</u>

7. PENSION PLAN

Plan Description

The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, Kansas 66603), or by calling 1-888-275-5737.

Contributions

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employees is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009 and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

7. PENSION PLAN (Continued)

State law provides that employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases on the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate for the Death and Disability Program) and the statutory contribution rate was 8.39% for the fiscal year ended December 31, 2018. Contributions to the pension plan from the District were \$10,726.46 for the year ended December 31, 2018.

Net Pension Liability

At December 31, 2018, the District's proportionate share of the collective net pension liability reported by KPERS was \$98,597. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018. The District's proportion of the net pension liability was based on the ratio of the District's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in this financial statement.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publically available on the website at www.kpers.org or can be obtained as described above.

8. ECONOMIC DEPENDENCY

The District purchases water for resale from Bone Creek. Water purchased for 2018 totaled \$53,265.25.

9. NOTES PAYABLE

The District has a note payable with Community National Bank & Trust to finance the construction of a new water treatment plant. The note is dated November 1, 2011, with a scheduled maturity of November 15, 2031. The note requires monthly payments of \$8,831.30 including interest at 4.59%, and is secured by two real estate mortgages, all tanks, lines, meters, present and future accounts, proceeds arising there from, contract rights, books and records, and general intangibles now owned, purchased with loan proceeds, or hereafter acquired, and all additions and accessions thereto. As of December 31, 2018, the note balance was \$1,026,416.67.

In November, 2015, the District borrowed \$150,000.00 from Community National Bank & Trust to finance improvements. The note is dated November 12, 2015, with a scheduled maturity of March 12, 2026. The note requires monthly payments of \$1,500.77 including interest at 3.69%, and is secured by the same property securing the 2011 note. Interest only was paid monthly until April, 2016, at which time principal and interest payments began. As of December 31, 2018, the note balance was \$114,095.41.

9. NOTES PAYABLE (Continued)

Changes in long-term liabilities for the District for the year ended December 31, 2018, were as follows:

Note	Balances Beginning of Year	Additions/ New Debt	Reductions/ Principal Paid	Balances End of Year	Interest Paid
Long-Term Debt Payable					
CNB #2767, 2011 Note	\$ 1,083,360.20	\$ -	\$ 56,943.53	\$ 1,026,416.67	\$ 49,032.07
CNB #3289, 2015 Note	127,560.31	-	13,464.90	114,095.41	4,541.94
Total	<u>\$ 1,210,920.51</u>	<u>\$ -</u>	<u>\$ 70,408.43</u>	<u>\$ 1,140,512.08</u>	<u>\$ 53,574.01</u>

Current maturities of the loan payable and interest for the next five years and in five year increments through maturity are as follows:

December 31,	PRINCIPAL	INTEREST	TOTAL
2019	\$ 74,149.85	\$ 49,832.64	\$ 123,982.49
2020	77,494.67	46,487.82	123,982.49
2021	80,991.40	42,991.09	123,982.49
2022	84,646.90	39,335.59	123,982.49
2023	88,468.49	35,514.00	123,982.49
2024 - 2028	453,566.30	116,439.93	570,006.23
2029 - 2033	281,194.47	19,227.85	300,422.32
TOTAL	<u>\$ 1,140,512.08</u>	<u>\$ 349,828.92</u>	<u>\$ 1,490,341.00</u>

10. LONG-TERM OBLIGATIONS

Water Purchase Contracts

On December 14, 2004, the District entered into a 40 year water purchase contract with Public Wholesale Water Supply District #11. The District is contractually obligated to purchase no more than two million gallons of water each month from PWWSO #11, which was reduced to one million gallons of water each month after the District built their water plant. The District agrees to pay PWWSO #11 \$2.90 per thousand gallons of water.

Water Sales Contracts

On May 13, 1981, the District entered into a water sales contract with Rural Water District #2, Crawford County, Kansas. RWD #2 is contractually obligated to purchase water each month from the District. For the current year, sales to Rural Water District #2 totaled \$91,728.

11. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to December 31, 2018 through March 7, 2019, the date of the financial statement. During this period, there were no subsequent events requiring recognition in the financial statement or disclosure in the notes to the financial statement.

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

CONSOLIDATED RURAL WATER DISTRICT #1, INC.
CRAWFORD COUNTY, KANSAS
WATER UTILITY FUND

Schedule of Receipts and Expenditures - Regulatory Basis

For the Year Ended December 31, 2018

(With Comparative Actual Amounts for the Year Ended December 31, 2017)

	2017 Actual	2018 Actual
Cash Receipts		
Operating Receipts		
Metered water sales	\$ 248,107.12	\$ 284,103.81
Debt service fees	260,702.00	265,227.09
Penalties	7,420.35	8,198.10
Nonoperating Receipts		
Proceeds from note payable	-	-
Interest income	741.86	831.96
Insurance Proceeds	12,453.93	-
Miscellaneous	5,612.19	4,431.27
Benefit Unit deposits	14,000.00	14,000.00
Total Cash Receipts	<u>549,037.45</u>	<u>576,792.23</u>
Expenditures		
Operating Expenditures		
Water purchased	60,945.50	53,265.25
Repairs and maintenance	49,099.37	38,467.57
Office salaries	29,373.88	30,352.04
Operating salaries	95,996.48	100,497.76
Operating supplies	25,844.59	25,076.18
Utilities and telephone	64,457.65	66,950.57
Office supplies	6,148.92	6,675.59
Insurance	18,029.75	18,743.50
Vehicle expense	6,163.04	8,127.36
Payroll taxes	20,646.89	21,565.58
Legal and accounting	3,064.58	3,758.50
Mileage and travel	1,807.21	2,131.69
Sales taxes and fees	3,831.45	3,993.29
Miscellaneous expense	4,608.30	3,169.28
Nonoperating Expenditures		
Debt Service		
Principal paid	66,321.12	70,408.43
Interest paid	57,661.32	53,574.01
Capital Outlays	17,487.83	5,290.13
Total Expenditures	<u>531,487.88</u>	<u>512,046.73</u>
Receipts Over (Under) Expenditures	17,549.57	64,745.50
Unencumbered Cash, Beginning	<u>216,613.42</u>	<u>234,162.99</u>
Unencumbered Cash, Ending	<u>\$ 234,162.99</u>	<u>\$ 298,908.49</u>